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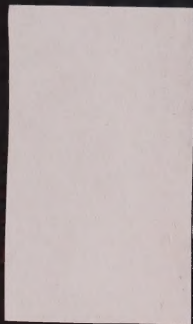
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Ministry of
Consumer and
Commercial
Relations



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all about co-ops



Ontario

Ministry of
Consumer and
Commercial
Relations

There are more than 700 co-operatives in Ontario and the number is steadily increasing. Many individuals and groups believe that a co-operative is the best method of acquiring reliable services and dependable goods at a cost lower than that paid by other consumers.

But there are pitfalls. It is not easy to organize and run a successful co-operative. Methods of operation, agreements between members, financial arrangements and management are areas where there may be difficulty if the objectives of the co-operative are not fully understood from the beginning.

The Ontario Ministry of Consumer and Commercial Relations has prepared this booklet to outline the advantages of co-operative corporations, to tell you how to start one, and to give you practical help in defining goals and responsibilities.

Co-operatives: people helping people

A co-operative is a group of people who have joined together to provide for themselves the best possible goods or services at the lowest possible cost. For that reason there is a strong sense of community and support among the members.

The idea is not new. In England in 1844 the Rochdale Society of Equitable Pioneers banded together to provide for themselves essential goods and services of dependable quality. It was operated at cost, as are present co-operatives, and its rules serve as a model for those of today:

- open membership
- democratic control
- a fixed low rate of interest on capital
- distribution of surplus to members in proportion to their purchases
- cash trading
- selling only pure and unadulterated goods
- provision for education
- political and religious neutrality
- sale of goods at retail prices

Objectives

Before organizing a co-operative, be sure you understand your objectives and what a co-operative corporation can and cannot do. A co-operative is *not* an investment which will necessarily return a profit to members. *A co-operative is a group of people who have joined together to provide services and goods at a lower rate than that available on the retail market.*

How? By replacing the middleman, sometimes by using the voluntary (non-paid) labor of the members, by reducing frills and by keeping inventory and waste to a minimum.

Replacing the middleman

In some consumer co-operatives, delegated members buy in bulk from producers and wholesalers. By doing this, they eliminate excess handling, transportation and labor charges which would be added to the price of the goods by the time they are sold in retail stores. Close co-operation among members is essential, however, to prevent the purchase of unwanted goods and to avoid shortages which could discourage members. Some of the members, therefore, must be expert in the purchasing field.

Voluntary (non-paid) labor

Baby-sitting co-operatives and nursery school co-operatives often operate on a voluntary principle. Members are required to work a certain number of hours per week. Regulations drawn up by the group should include alternatives or penalties if members cannot or do not follow this condition.

Reducing frills

Food co-operatives are often located in small warehouses. Recorded music to tempt the consumer, glistening displays to entice shoppers and advertising are avoided.

Keeping inventory and waste to a minimum

Because co-operatives work on the smallest possible budget, there is no money left over for mistakes. Buyers for co-ops must be expert at choosing the right goods in the right quantity at the right price.

Food co-operatives are perhaps the most vulnerable, as one truck load of rotting perishables could wipe out the financial stability members have struggled to maintain. One method used by some co-operatives to avoid the problem is to have each member place his or her weekly order in advance, after which the buyer chooses from the producer only what is needed for that week.

A pitfall of this system, though, is that the member who has unexpected needs may not be able to fill them. Also, if the quality is not to the member's satisfaction, the item may not be purchased.

Advantages of the formal structure

All too often a group of people decides to work together to provide cheaper food or day care or clothing, and they think incorporation isn't necessary. Maybe they are all friends who don't see the need for a formal structure.

But there are hazards. If a child is hurt in the day care centre or a customer falls in the food store, everyone could be sued. There is unlimited liability.

If, however, the group is incorporated under the Co-operative Corporations Act, an individual's liability is limited to the amount of his or her investment.

How to start a co-operative

Be sure you realize what a co-operative is and what it isn't. Remember that you will have only one vote regardless of the amount of capital invested in the venture and that you will have responsibilities equal to all other members.

It is not an easy task to organize and operate a successful co-operative.

Once you have decided that a co-operative corporation is the best way to fill your needs, you should obtain a copy of the Co-operative Corporations Act, which is available for \$5 from:

Ontario Government Bookstore
880 Bay Street
Toronto, Ontario M7A 1N8
(416) 965-6015
Toll free 1-800-265-7540.

Study the act carefully. If you have questions about the requirements or regulations, call the Credit Unions and Co-operatives Services Branch of the Ontario Ministry of Consumer and Commercial Relations at (416) 963-0515.

Financing

After you have studied the act, decide whether your co-operative should be incorporated *with or without share capital*.

Any business enterprise needs capital, and co-operatives are no exception. The decision about whether to incorporate with or without share capital must be studied fully.

If your venture will require much capital, for equipment or supplies or initial stock, it would likely benefit from share capital incorporation.

Share capital

As a requirement for membership, patrons must buy shares in the co-operative. This is, in effect, an investment in the co-operative. If the co-operative is not successful, your investment may be lost.

If you decide to leave the co-operative, you must give six month's notice in writing, and your investment will be returned to you, or if the co-operative would find that a financial hardship, it may pay you one-fifth of your investment each year for five years.

Non-share capital

Instead of buying shares in the co-operative, members are required to lend the co-op a minimum amount of money on which interest is paid at a rate not more than that stated in the Act.

The basic difference between share capital and non-share capital is that the first is equity financing while the second is debt financing.

In a non-share capital co-op, there is usually no provision to pay back the term loan at the time a member leaves, but only at maturity. Loans, of necessity, are usually long-term to give the co-operative stability.

Getting down to basics

Although co-operatives will vary widely because of their diverse objectives, they should have these basic characteristics:

Each person has only one vote

In a corporation, the number of votes you have is dependent upon how much money you have put into the company. In a co-operative, no matter how much you have invested, or how much money you have lent to the group, you have only one vote.

There is no voting by proxy

This stipulation, basic to the co-operative movement since the formation of the Rochdale Society of Equitable Pioneers, is a check against the accumulation of power by one of more members.

Interest on capital investment is limited to a percentage fixed by the Act

If the primary purpose of the co-operative were to make a profit for its investors, it would defeat the purpose of giving service at cost, or sharing the earnings on a patronage basis.

Net surplus, called the patronage return, is calculated each fiscal year and distributed to members in proportion to volume of business done by each By-laws of the co-op may require that all or part of the patronage return be used to purchase shares in the co-operative or that all or part of the patronage return be lent to the corporation at a fixed rate of interest.

If volume of business is less than \$250 or any lesser sum agreed to by the by-laws, the co-operative is not obligated to pay a patronage return for that member.

Choosing a name

When you incorporate your co-operative, you must choose a name. By law, it must contain the word “co-operative” and must have as the last word in the name the word “corporation” or “incorporated” or “corp.” or “inc.” Co-operative corporations which have share capital may instead use the term “limited”. The name you choose may not be the same as or similar to the name of any other person or corporation unless that person or corporation has consented in writing to its use.

The name must not imply any connection with the government or with the Crown or with any political party. It must not, in the opinion of the minister, be objectionable to the public.

Complete information about the selection of a name is given in sections 7 through 12 of the Act.

While some unincorporated groups have been referring to themselves as co-operatives, it is actually unlawful in Ontario to use the word “co-operative” in connection with a name of a business or undertaking unless the organization is incorporated under the Co-operative Corporations Act.

Once you have selected a proposed name, hire a private search house to ensure no other group is using the same or a similar name. The house will supply a NUANS report which must be sent for final clearance or your co-operative name to the Credit Unions and Co-operative Services Branch.

Membership

Any five or more individuals or corporations may become incorporated as a co-operative. These members are bound by the articles of incorporation and by the by-laws they have set.

Members of the co-operative must be at least 16 years of age, but they must be 18 before they may be an incorporator or a director.

Completing the articles of incorporation

Forms for incorporating with or without share capital are available from:

Administrator, Co-operative Services
Ontario Ministry of Consumer and
Commercial Relations
555 Yonge Street
Toronto, Ontario M7A 2H6

Be sure to specify which you require.

After the name has been approved, complete and return the forms with a cheque payable to the Treasurer of Ontario in the amount prescribed by Ontario Regulation 183/80 made under the act.

Drafting the by-laws

Sample by-laws in English or French for either share capital or non-share capital incorporation are available from:

Credit Unions and Co-operative Services Branch
Ontario Ministry of Consumer and
Commercial Relations
555 Yonge Street
Toronto, Ontario M7A 2H6

They will help to eliminate any oversights and protect you from inadvertent error.

You may wish to draft your own set of by-laws, which is acceptable so long as you have complied with all provisions of the Act.

Some of the topics you should cover in your by-laws include: membership; member loans or share capital; share or loan certificates; meetings of members; the board of directors and officers; distribution of surplus; patronage loans; borrowing powers; auditors; cheques, drafts and notes; bonding of employees and officers; custody of securities; execution of documents; fiscal year; dissolution; notices; amendments.

Initial meetings

When the name has been approved and the completed articles of incorporation have been processed, you will be sent a certificate of incorporation.

The founding directors of the co-op elect officers and enact by-laws which should subsequently be confirmed by the general membership. Banking resolutions should also be passed.

All members should understand the regulations and by-laws that have been drafted. and provisions should be made for this information to be disseminated.

Auditor

If membership is small, and financial assets are few, an auditor may not be required. If you have more than 15 members, capital of more than \$15,000, gross operating revenues exceeding \$100,000 or assets of more than \$50,000, the act specifies that an auditor must be appointed to examine the financial records and make an annual report.

The auditor must be impartial and may not be a director or employee of the co-operative. (See section 126 of the act.)

Dissolution

If the members decide to dissolve the co-operative, they first must signify their intent by filing articles of dissolution with the Credit Unions and Co-operatives Services Branch of the Ontario Ministry of Consumer and Commercial Relations, 555 Yonge St. Toronto, Ont. M7A 2H6.

Net surplus is then either:

- apportioned equally among members, or
- paid out in proportion to the patronage rebate paid over the past five years.

Alternately, the money may be given to charity.

If the method of disposing of surplus funds is not stated in the articles of incorporation or by-laws, the funds will be apportioned equally to members regardless of number of shares held.

Co-operatives in Ontario

In Ontario today there are, in addition to housing projects, nursery schools, taxis, food retailers, farm suppliers, milk transporters and other services all run on a co-operative basis.

Housing co-operatives

Housing co-operatives, in existence for more than 100 years, are relatively new to Ontario. Because they provide good accommodation at prices lower than individuals could find on the open market, they are rapidly gaining in popularity.

Inflation and the high cost of serviced land in urban areas have put home ownership out of reach of most families, but many of the advantages of owning your own property are available through this method.

If you are a member in a housing co-operative, you do not own your house or unit.

You own a share, or number of shares, in the co-operative corporation which holds title to the property. As an alternative to buying a share, you may be required to lend the co-op a specified sum of money.

As a member of the co-op, you have the rights and obligations of all owners. By voting at the annual meeting you decide how your property should be operated: whether pets will be allowed, types of play equipment to be purchased, maintenance of the unit and any other issues concerning the group.

Because the principle of co-operative development is one vote for each member, you have as much right to determine policy as someone with a greater investment.

Types of housing co-operatives

Following are three ways a group of people could begin a co-operative housing venture:

1. They may, after formally incorporating, buy the land, build the units and manage them themselves, with or without paid help.
2. They may find suitable housing that requires only renovations to fill their needs, and by incorporating provide themselves with the capital necessary for those renovations.
3. A group of people renting units in the same apartment building could form a co-operative corporation and buy and operate their building as member/owners of a housing co-operative.

Each of these alternatives requires careful planning and continuing enthusiasm of the members.

Help for housing co-ops

Several government programs are available to subsidize co-op acquisitions and renovations.

Non-profit Co-operatives—NHA-insured loans from approved lenders are available for up to 100 per cent of the cost of projects undertaken by continuing, non-profit housing co-operatives. Maximum federal assistance is equivalent to an interest rate reduction on the loan to as low as two per cent. Federal assistance is applied to reduce payments to the lower range of market rents for the area. Additional financial help is provided for those requiring rent-to-income scale assistance. Groups are eligible for “start-up” funds to a maximum of \$75,000.

Residential Rehabilitation Assistance Program (RRAP)—Loans from Canada Mortgage and Housing Corporation (CMHC) or from lenders approved under the National Housing Act, are available to upgrade housing in designated areas of selected municipalities. The assistance is intended to improve properties that are deficient in structural soundness, electrical system, plumbing, heating or fire safety. Loans are also available under the private and co-operative non-profit housing programs and the rural and native housing programs. For homeowners, the maximum loan is \$10,000 of which up to \$5,000 need not be repaid, depending on income and extent of repairs. Owners of rental accommodation can qualify for a CMHC forgivable loan of up to \$3,500 per unit (\$3,750 for non-profit corporations and co-operatives).

Additional provisions are available under RRAP to accommodate the special needs of disabled occupants in all localities. If rehabilitation is undertaken solely for this purpose, the maximum loan is \$10,000 for homeowners with a maximum forgivable of \$5,000. However, if this type of work is combined with other RRAP eligible repairs, the maximum loan is \$13,000 with as much as \$6,500 forgivable. Landlords rehabilitating premises solely for the benefit of a disabled tenant can receive a forgivable loan of up to \$3,500. Where these alterations are combined with more conventional RRAP work, maximum forgiveness rises to \$5,000.

Details of these programs are available from CMHC.

For information about provincial assistance for housing co-operatives, please contact:

Community Housing Program Administration
Ontario Ministry of Municipal Affairs and Housing
777 Bay Street East
Toronto, Ontario M5G 2E5
(416) 585-6430

The cost advantage

In addition to the advantages of government grants and mortgage assistance, however, there is a major cost-saving factor. Because there is no speculator or developer to make a profit, the units can be built at cost.

The membership of a co-operative holds down any increases to those made necessary by increased labour maintenance costs or taxation. Because it is essentially a non-profit organization, there is no advantage to adding to costs of operating and maintaining the unit.

Other benefits

If you decide to move, submit your notice in writing to the secretary. The co-op will buy back your share(s) at par (or at a sum less than par if you agree). In a co-op, your demand loan will be repaid. In this way you have the mobility of rental accommodation.

You may decorate your unit as you wish and, as long as you don't infringe on the rights of others, you have the other advantages of home ownership.

The rules and regulations will state the responsibilities of members: whether weekly maintenance labor is required and other obligations. You may not be arbitrarily evicted. A member may be expelled only by a majority vote of the board of directors and reasons for the expulsion must be stated. Members have the right to appeal the expulsion in a vote by the general membership.

Because they are so directly affected by decisions, prospective members should be sure that they agree with both the concept and the objectives of the group. Major group purchases and projects, such as recreational facilities or swimming pools, are the financial responsibility of all members once passed by the majority.

Glossary:

Share capital co-operative

Patrons are required to invest a specified amount of money in the co-operative. They buy a share which is bought back by the co-operative when they withdraw.

Co-operatives without share capital

In lieu of purchasing a share, patrons agree to lend the co-op a specified sum of money.

Net surplus

The amount of money left over at the end of the fiscal year after all expenses have been paid.

Patronage return

The amount of money divided among the members from the net surplus, on the basis of patronage.

Deferred patronage return

The patronage return which is re-invested in the co-operative.

Compulsory loans

Money lent to the co-operative by the membership as a requisite of membership.

Term loans

Sums of money lent to the co-operative for a specified length of time.

Equity financing

Financing by purchase of shares (share capital co-op).

Debt financing

Financing by loan (non share capital co-op).

Proxy

Allowing another to use your vote. This is impossible in a co-op.

Articles of incorporation

The document signed by the incorporators setting out terms and conditions. Available from the Credit Unions and Co-operatives Services Branch of the Ontario Ministry of Consumer and Commercial Relations, 555 Yonge St., Toronto, Ont. M7A 2H6.

Dissolution

The termination of a co-operative.

Par value

The face value of the share. In a co-op, this will be from \$1 to \$100.

Class of shares

If there is only one class of shares, they will be common shares. If a co-op has more than one class of shares, there will also be one or more class of preference shares. See section 26 of the act for details.

Loan certificates

The document stating the amount and terms of the loan.

Co-operatives and condominiums

Condominiums and co-operatives are two comparatively recent types of accommodation available to Ontarians. Because they are often not accurately described, there is confusion between the two.

In a condominium, you own your own unit and, in addition, a portion of that property that you have in common with other owners (hallways, parking areas, recreation facilities and others). You buy the unit, pay the down payment and arrange the mortgage as you would in any ownership agreement.

In addition to the monthly mortgage, there is a stipulated sum for the maintenance of the exterior of the building and the maintenance of the common elements. This sum is proportional to the size of the unit you own.

In a co-op, you do not own your unit, but a share (or shares) in the corporation which in turn owns the entire project.

The monthly fee will be proportional to the size of the unit. Necessary maintenance fees are added.

In both types of accommodation the majority rules: you pay for alterations and additions agreed to by the membership and you agree to abide by all regulations, which may change as the needs of residents change.

For further information...

For more information on co-operatives contact the appropriate organizations listed below.

Co-operative housing financial assistance

Ontario Regional Office

Canada Mortgage and Housing Corporation

2255 Sheppard Ave. E., Suite 222E

Willowdale, Ontario M2J 4Y1

(416) 498-7300 or contact your nearest CMHC office.

Ontario Ministry of Municipal Affairs and Housing
Community Housing Program Administration

777 Bay Street

Toronto, Ontario M5G 2E5

(416) 585-6430

Management and organization of housing co-operatives

Co-operative Housing Federation of Toronto Inc.

299 Queen St. W., Suite 501

Toronto, Ontario M5V 1Z9

(416) 598-1641

Ottawa Federation of Housing Co-operatives Inc.

303-251 Bank Street

Ottawa, Ontario K2P 1X3

(613) 238-5141

Co-operative Housing Foundation of Canada

Suite 401, 56 Sparks Street

Ottawa, Ontario K1P 5A9

(613) 238-4644

Management and organization of food co-operatives

Ontario Federation of Food Co-operatives and Clubs Inc.

58 Wade Avenue

Toronto, Ontario M6H 1P6

(416) 533-7989

Management and organization of co-operatives in general

Ontario Co-operative Development Association

151 City Centre Drive

Box 27, Station "A"

Mississauga, Ontario L5A 3A4

(416) 270-2600

Taxation information (all types of co-operatives)

Revenue Canada: local district taxation office

Ontario Ministry of Revenue: local branch

A comparison	
<i>Item</i>	<i>Co-operative Housing</i>
Control of cost	by occupants and majority vote
Form of tenure	membership and occupancy agreement designed by members
Management	controlled by members
Rules, by-laws regulations	controlled by members
Superintendent	responsible to members
Use of open and common space	controlled by members
Freedom to decorate	yes—exterior change requires vote
Deposit required when moving in	loan or share purchase and month's 'rent'
Notice when moving	stipulated in agreement
Possibility of profit or loss	no

<i>Apartment Rental</i>	<i>Condominium</i>	<i>Home Ownership</i>
by management	by occupant and management	by owner
may or may not have lease	by-laws and regulations set by developer & owners	ownership
management responsible to landlord	initially by developer; transferred to owners as units bought	by owner
controlled by landlord	initially set by developer. May be changed by vote	none
responsible to landlord	initially responsible to developer, then owners	none
subject to landlord-tenant agreement	controlled by owners	controlled by owner
yes—with some restrictions	yes—exterior change requires vote	yes
negotiable between landlord and tenant	down payment plus legal, real estate fees	down payment plus legal, real estate fees
60 days in most cases	find a buyer	find a buyer
no	yes	yes

Consumer Services Bureaus

250 Windsor Ave.
6th Floor
Windsor, Ontario
N9A 6V9
(519) 254-6413

P.O. Box 2112
119 King Street West
5th Floor
Hamilton, Ontario
L8N 3Z9
(416) 521-7554

139 George St. North
Peterborough, Ontario
K9J 3G6
(705) 743-8728

199 Larch Street
5th Floor
Sudbury, Ontario
P3E 5P9
(705) 675-4378

P.O. Box 5000
435 James Street South
Thunder Bay, Ontario
P7C 5G6
(807) 475-1641
(807) 475-1600

Box 5600, Terminal 'A'
80 Dundas Street
London, Ontario
N6A 2P3
(519) 679-7150

555 Yonge Street
Toronto, Ontario
M7A 2H6
(416) 963-0321

10 Rideau St.
2nd Floor
Ottawa, Ontario
K1N 9J1
(613) 566-3878

Be an informed consumer

The consumer ministry has published a number of other booklets covering a range of consumer topics.

Copies of these publications may be picked up in person at the Consumer Information Centre, 555 Yonge St., Toronto (Telephone 416/963-1111; toll free 1-800-268-1142, TTY/TDD 416/963-0808) or from Consumer Services Bureaus in Hamilton, London, Ottawa, Peterborough, Sudbury, Thunder Bay and Windsor.

For direct mail requests:

Consumer Information Centre
Ontario Ministry of Consumer and
Commercial Relations
555 Yonge Street
Toronto, Ont. M7A 2H6

We'd like to hear from you.

The consumer ministry welcomes any comments and suggestions on its information materials, programs and customer services. In this way we can best respond to your needs in the marketplace.



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